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C O N F I D E N T I A L SECTION 01 OF 02 NICOSIA 000273

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SUBJECT: CYPRUS REACTS TO EU AID PACKAGE FOR TURKISH  
CYPRIOTS

REF: LIBBY-MARCIEL-SKINNER EMAIL (6/17/05)

Classified By: Ambassador R. Schlicher, for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY. The EU's decision to approve its long-awaited 139 million euro aid package for the Turkish Cypriots has been welcomed as a triumph of diplomacy on the Greek Cypriot side. GOC contacts note that the shape of the aid package -- as well as the content of an accompanying declaration -- "meets all our requirements." The Turkish Cypriots, however, are bitter that the EU has "given into Greek Cypriot pressure" over aid, even as Talat's staff privately admit that the accompanying declaration is "not as bad" as what had been proposed by the Commission in late ¶2005. While apparently unwilling to block implementation of the EU's assistance money, the Turkish Cypriots feel the aid will not contribute to the development of their economy absent direct trade, which remains on hold. They also expect the GOC to use its concerns over Greek Cypriot property in the north to limit the scope of EU assistance projects. European diplomats here generally welcome the passage of this aid package as an end to a long-running EU institutional headache. While the deal will give the Turkish Cypriots an opportunity to strengthen their still-nascent relationship with the EU and its myriad institutions, the immediate beneficiary is Tassos Papadopoulos. The Cypriot President is using the agreement both to burnish his image and strengthen his hand in advance of his February 28 meeting with UNSYG Annan. The Turkish Cypriots, meanwhile, are expressing fears that their "flexible" approach to the Greek Cypriots and the EU has brought them nothing but grief. END SUMMARY.

GREEK CYPRIOTS GLOAT  
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¶2. (C) The EU's decision to pass the long-delayed assistance package for the Turkish Cypriots has been welcomed as a diplomatic triumph in the south. One MFA contact noted to us that the package "meets all our requirements," pointing to provisions which mandate "consultation" with the ROC over implementation of aid projects, especially where such projects "might affect property rights" -- as well as an annex stipulating that the EU office overseeing assistance would be located in the south.

¶3. (C) In public, however, the biggest news has been language in the accompanying declaration linking further measures for the Turkish Cypriot economy to issues "that formed the basis of consultations held under the Luxembourg Presidency." This is a reference to June 2005 talks held between the two communities (ref email), in which the Luxembourgers tried, and failed, to broker a deal that would have given the Turkish Cypriots aid and some liberalization of trade with the EU (perhaps even direct trade) in exchange for some combination of a property moratorium and the renovation/return of Varosha.

14. (C) Despite his insistence that he was "neither bragging nor celebrating," Papadopoulos celebrated the February 24 COREPER decision, bragging that finally "the issue of the return of occupied Famagusta to its lawful inhabitants had come under the realm of the European Union."

#### TURKISH CYPRIOTS GRUMBLE

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15. (C) The Turkish Cypriots, however, feel that by passing its assistance package without the direct trade measures originally conceived to go with it, the EU has once again "given in to Greek Cypriot pressure" and guaranteed that its aid package will have little positive impact on the Turkish Cypriot economy. In private, Turkish Cypriot officials acknowledge that this official decoupling of trade and aid has come as no surprise to them, but nonetheless are angry that the EU-25 have agreed to an aid package "filled with concessions to Papadopoulos." In a press release, "President" Talat's office focused on the accompanying declaration, saying it did "not consent" to its content and criticizing the reference to the Luxembourg talks as a "possible loophole through which UN issues could be dragged onto the EU platform."

16. (C) Nonetheless, Talat's U/S Rasit Pertev (please protect) suggested to us that the Turkish Cypriots had decided not to block the actual implementation of the aid measure, which "would cause us more trouble" than it was worth. Although the Turkish Cypriots felt they "had to go on record" with criticism of the aid, the EU's reference to the Luxembourg talks was "vague" and "not as bad as it could have been" because it made no specific mention of "unacceptable" Greek Cypriot demands from the Luxembourg talks -- a unilateral

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freeze on property development and the return of Varosha. Pertev was still angry, however, that the final aid package had been agreed to "over our heads." He was certain that the Greek Cypriots would see to it that property concerns and other "political" considerations would limit the scope of specific aid projects to the point that European assistance would be economically meaningless.

17. (C) By passing aid in a form that met Greek Cypriot demands, Pertev suggested that the EU was inviting further Greek Cypriot hardball tactics -- and slowly painting Talat into a corner. The Turkish Cypriots already regretted their decision to "show flexibility" during the Luxembourg talks by agreeing to discuss settlement-related issues outside a UN context again. They would "never ever ever" agree to discuss such issues in an EU context. The Turkish Cypriots "were still paying the price" for their decision to do so last year.

#### COMMENT

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18. (C) European diplomats here, including the British (who usually see eye-to-eye with us on Cyprus issues), have welcomed the EU aid agreement and praise the Austrian Presidency for defusing this long-running institutional headache. Indeed, the Austrians do deserve credit for walking the Greek Cypriots back from the demands they made in late 2005, when the GOC insisted on an accompanying declaration that explicitly mentioned Varosha and property. Furthermore, even a limited aid program will benefit the Turkish Cypriots -- even if it is politically inconvenient for Talat -- by deepening and institutionalizing the community's ties with European institutions.

19. (C) Nevertheless, the biggest beneficiary of the EU aid program, at least in the short run, is likely to be Tassos Papadopoulos. Having secured a politically useful declaration -- and effectively watered down key elements of the aid package -- Papadopoulos can now play the role of magnanimous statesman by allowing assistance to move forward.

This strengthens his hand in advance of his February 28 meeting with UNSYG Annan. Even as he has given little indication that he is ready to move forward with real give-and-take on substantive matters relating to the Cyprus problem, Papadopoulos may hope that this gesture will help prod Annan into taking a more active role in the Cyprus problem -- which the ruling DIKO-AKEL coalition would like to see before legislative elections in May. In addition to this "positive" GOC gesture, last week's Turkish refusal to allow a Greek Cypriot ship to dock in Mersin has also let Tassos go into the Annan meeting looking "the good guy."

¶10. (C) The Turkish Cypriots view the tortured process that led up to today's aid decision as a lesson in the dangers of showing "flexibility" toward the current Greek Cypriot administration. Fearful of a "Luxembourg trap," Talat is likely to be much more circumspect about negotiating confidence-building measures currently being contemplated by the UN, such as the opening of Ledra Street or the demilitarization of Old Nicosia. END COMMENT.  
SCHLICHER